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SUBJECT: AUSTRALIAN CENTRAL BANK SLASHES INTEREST RATES -
AGAIN

REF: A. CANBERRA 1079
[1](#)B. CANBERRA 1010
[1](#)C. CANBERRA 1036

[1](#)1. (U) Summary. On November 4 the Reserve Bank of Australia (RBA) slashed the official cash rate by 75 basis points, to 5.25%. Again, the cut was greater than expected, showing the RBA has placed protecting growth ahead of restraining inflation. This comes in the wake of a whole series of uniformly negative economic numbers over the past week. End summary.

ANOTHER BIG INTEREST RATE CUT

[1](#)2. (U) On November 4 the Reserve Bank of Australia reduced the official cash rate from 6.00% to 5.25% - a cut bigger than the predicted 25 or 50 basis point move (some observers even thought a decision to make no cut was possible). In his statement, Governor Glenn Stevens noted ongoing turbulence in global financial markets, volatile global equity prices, and the sharp depreciation of the Australian dollar (ref A). Stevens noted the domestic economy had "moderated" recently, but said he was concerned that "deteriorating international conditions and falling commodity prices" would hurt growth. Inflation, he said, was still near 5% annual basis for the September quarter, but capacity pressures are easing and he expects inflation to begin to fall.

"THE DATA ALL TURNED RUBBISH"

[1](#)3. (SBU) As one Sydney banker told Embassy today, this large cut, on the heels of a 100 basis point cut in October (ref B), is because "the data all turned rubbish". Despite the A\$10.4 billion fiscal stimulus package (ref C), further evidence has come in of the toll the global downturn is taking on the Australian economy. The Australian Bureau of Statistics announced Monday that house prices plunged 1.8% in September - a much greater decline than the 0.5% prediction, and the biggest drop for a quarter since 1978. Retail turnover dropped sharply, down 1.1% in September, and ANZ Bank's employment advertisement index dropped 5.9% to its lowest level in 18 months. The Australian Industry Group's manufacturing index fell 6.8 points in October to the lowest level since 1992. Commodity prices remain well down from peaks earlier this year as demand in China and elsewhere slows. Prime Minister Kevin Rudd called the data "ugly" and said on November 3 that "growth is under direct threat from the global financial crisis".

¶4. (U) Treasurer Wayne Swan immediately greeted the RBA's decision as "relief for Australian families" (Swan, and Opposition Leader Malcolm Turnbull, called on banks to pass on most of the 75 basis point cut to mortgage holders). Swan said "the RBA and the Government are determined to strengthen the economy in the face of changing international conditions." The Australian Stock Exchange, which gained 5% on Monday in anticipation of a 25-50 basis point cut, rose 2% immediately after the RBA's 2:30 announcement.

¶5. (SBU) Comment: This is the third rate cut from the RBA in two months, and another bigger-than-expected move. Australia's mid-sized economy remains exposed to developments beyond its control, but the RBA knows it is in the enviable position of having a lot of room to operate (rates still over 5% even after these cuts) and has clearly demonstrated its determination to aggressively prop up Australian growth in the face of increasingly bleak international conditions. Mortgage cuts coupled with the stimulus payments in early December will give Australian consumers a significant cash infusion right before Christmas and the summer holidays. The question now - will they spend it? End comment.

MCCALLUM